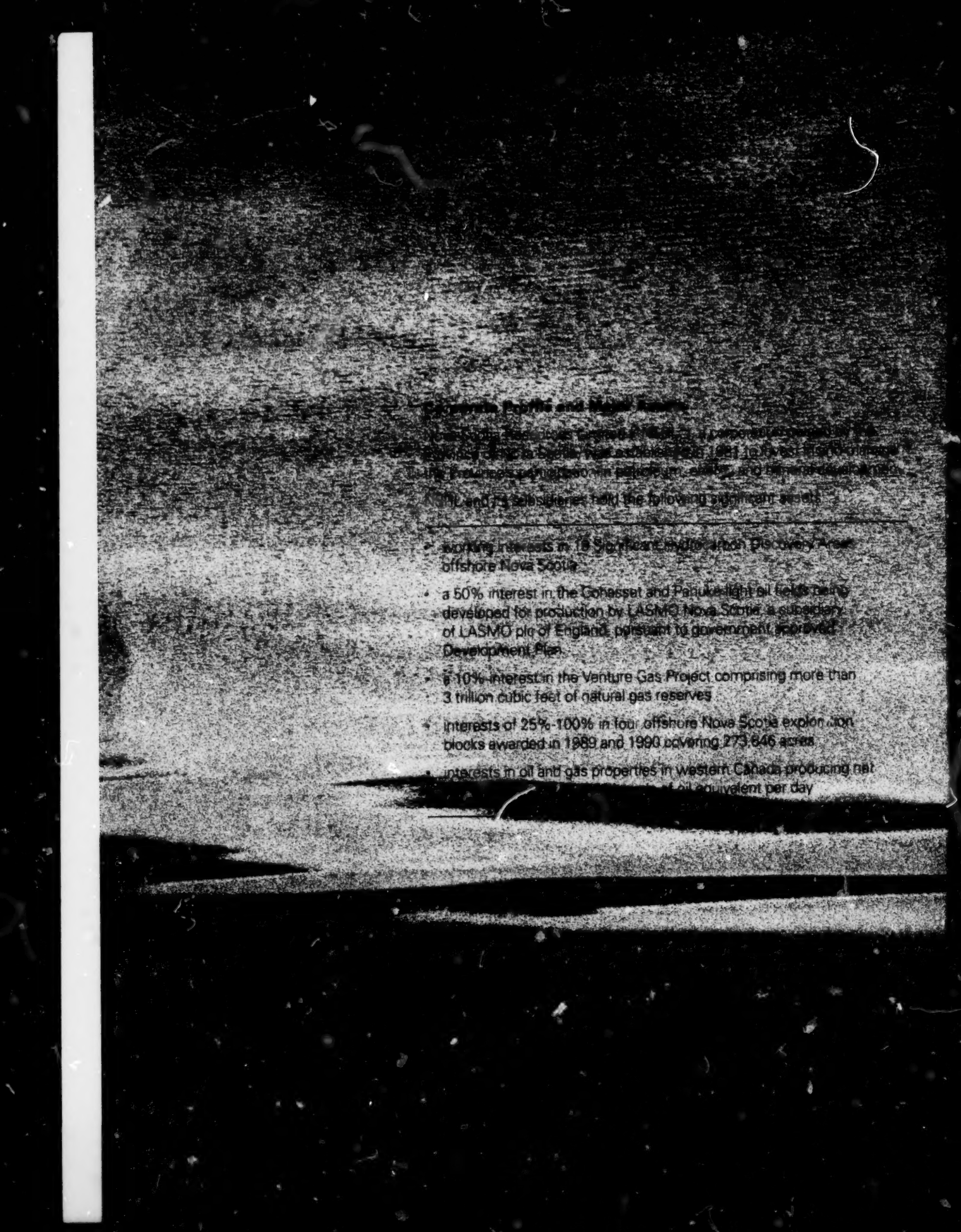


Corporate Profile and Major Assets

[illegible] is a corporation [illegible] Alberta, [illegible] 1981. [illegible] and its subsidiaries hold the following significant assets:

- working interests in 19 significant undrilled Discovery Areas offshore Nova Scotia;
- a 50% interest in the Cohasset and Panuke light oil fields being developed for production by LASMO Nova Scotia, a subsidiary of LASMO plc of England, pursuant to government approved Development Plan;
- a 10% interest in the Venture Gas Project comprising more than 3 trillion cubic feet of natural gas reserves;
- interests of 25%-100% in four offshore Nova Scotia exploration blocks awarded in 1989 and 1990 covering 273,646 acres;
- interests in oil and gas properties in western Canada producing net [illegible] of oil equivalent per day.

91-04248/

President's Message

Peter A. Outhit

Cohasset/Panuke Project

The September 1990 approval by the Canada-Nova Scotia Offshore Petroleum Board of the Development Plan for the Cohasset and Panuke oil fields, in which NSRL holds a 50% interest, and the subsequent announcement by the NSRL Operator LASMO Nova Scotia and NSRL that the development is to proceed, marks a major turning point for the Nova Scotia offshore.

The expeditious 10-month pre-development phase demanded close co-ordination between the applicants, both levels of government and their petroleum administrations, and the newly established Canada–Nova Scotia Offshore Petroleum Board. There has been constructive input from the fishing community, from environmental agencies, and from the Nova Scotia public.

As a result, Canada's first commercial offshore oil production project has moved from the drawing board to beginning of construction within a demanding time schedule. This dynamism gives us confidence the project will meet its 1992 production target.

Administration

Cash flows are steadily increasing from the Company's producing assets in western Canada. Producing volumes have been higher than forecast and management costs have been reduced. For the 12 months to 31 March 1990 net earnings to NSRL from these assets totalled $2.17 million, nearly $1 million higher than the preceding year.

During the year the Hon. John E. Shaffner, a former Lieutenant-Governor of Nova Scotia, retired from the Board; we are most grateful to have had his five years of service. The appointment as a director of H. Neil Nichols, a native Nova Scotian and former Executive Vice President of TransCanada Pipelines, brings us important additional expertise.

As the Company enters the 1990's its strategic mandate as resource development catalyst is beginning to achieve real returns.

Peter A. Outhit
President and Chief Executive Officer

Chris Greentree, Chief Executive , LASMO plc and Peter Outhit, NSRL, conclude agreements November 1989

John French, Director of Marketing, and Jim MacDonald, Manager of Engineering, review project data

Cohasset/Panuke Development

The 1989 Annual Report reviewed events leading to the agreement of LASMO Nova Scotia Limited – a subsidiary of LASMO plc of England – to participate in and operate the Cohasset and Panuke Significant Discovery Areas. LASMO agreed to adopt NSRL engineering concepts for combined field development, and to seek early government approval for a development plan leading to production by 1992.

In November 1989 agreements were completed among all companies holding interests in the Cohasset and Panuke areas. These resulted in acquisition by LASMO Nova Scotia (LASMO) and by Nova Scotia Resources (Ventures) Limited (NSRL) of a 50% ownership interest each in both fields. LASMO, as project Operator, then prepared and filed with the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB) a preliminary application for the combined development of Cohasset and Panuke.

In early January 1990, federal and Nova Scotia legislation was proclaimed formally constituting the CNSOPB and establishing the legal framework for development application consideration. LASMO located and staffed its project headquarters in Halifax and immediately began preparing, in consultation with NSRL, bid packages for critical path design engineering and long-lead time procurement. Meetings were held with representatives of the fishing industry, interested Nova Scotia suppliers and potential contractors, and government agencies.

From March to June the approval process was highlighted by a pioneering public review of the environmental and socio-economic aspects of the development application. A Commissioner appointed by the CNSOPB convened hearings at several Nova Scotia locations at which the development proposal was described and public concerns or questions addressed. The detailed application itself was made available to the public.

This process concluded with the Commissioner's report to the CNSOPB stating that, subject to compliance with specified recommendations, the proposed project was acceptable from an environmental and socio-economic viewpoint and should be permitted to proceed. The recommendations comprised measures to avoid or minimize any interference with fishing activity, establish safety zones and acceptable compensation policies, and finalize contingency plans relating to oil spills or other emergencies. These had been anticipated by LASMO and are being addressed.

In July LASMO submitted to the CNSOPB a final Development Plan incorporating all changes required since December and updating design engineering and project economics. The CNSOPB announced its Fundamental Decision Report on September 12 which approved the Development Plan and associated Benefits Plan subject to meeting specified conditions prior to and after production startup. The Decision denotes the formal approval of the Canada and Nova Scotia Ministers of Energy.

On September 24 LASMO and NSRL announced they had taken the "go forward" decision to proceed with Cohasset/Panuke development in order to achieve first production by 1992. This initiated the construction phase.

In the Development Application LASMO undertook to achieve a high standard of industrial benefits to Canada and Nova Scotia through project procurement, contracting, and employment. A detailed Benefits Plan negotiated and filed with the CNSOPB reflects this commitment. By October 1990, the cumulative value of project awards to Nova Scotia companies, or involving direct Nova Scotia benefits had exceeded all previous estimates.

Cohasset and Panuke crude is a light (52°API) gravity oil that is attractive to a variety of users in the condensate and light oil markets within the North Atlantic Basin. It will be sold at market prices prevailing over the life of the project. LASMO and NSR(V)L will separately sell their own shares of production but are coordinating market development activity and informational studies.

Figure 1: **Cohasset/Panuke Development Schedule**

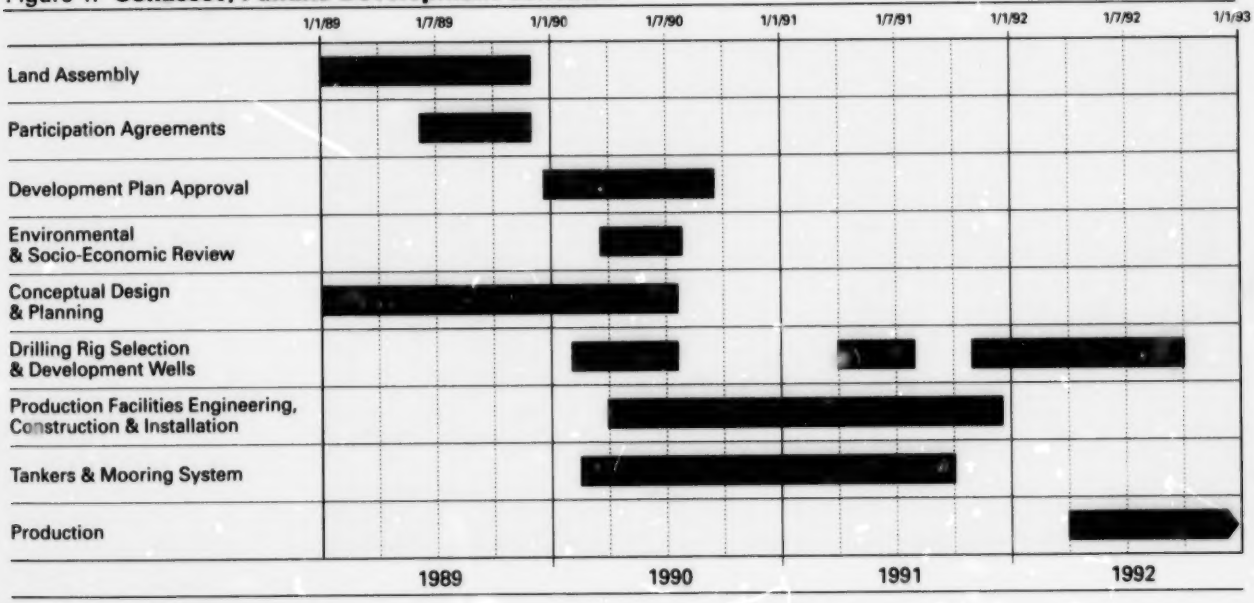
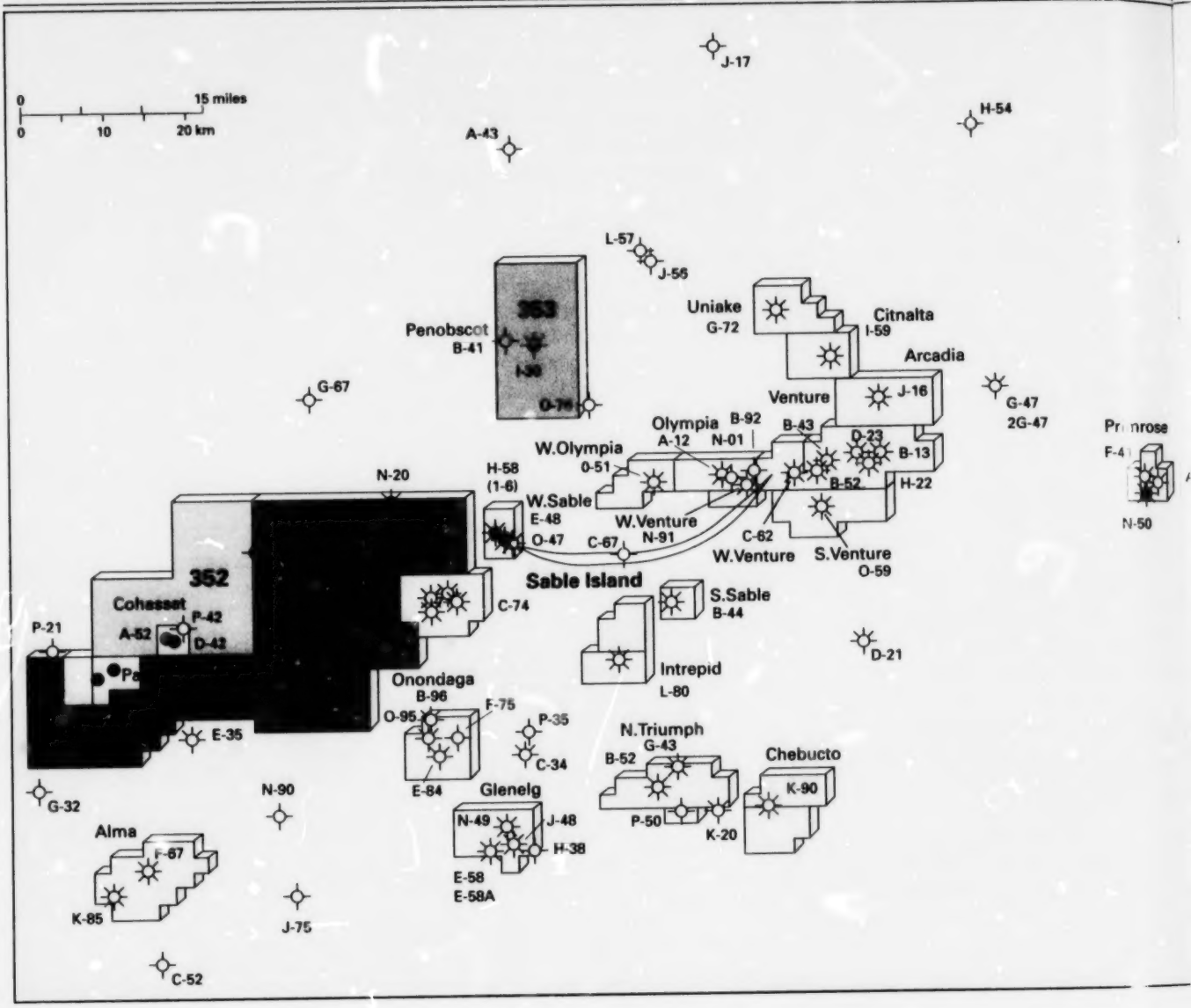


Figure 2: **Nova Scotia Offshore Significant Discovery Areas and Exploration Licenses**



Well Symbols

- Drilling
- Plugged & Abandoned
- Significant Gas
- Gas Show
- Significant Oil
- Oil Show
- Significant Oil & Gas
- Oil & Gas Show

Exploration License	Operator
352	LASMO Nova Scotia Limited
353	Nova Scotia Resources (Ventures) Limited
	Mobil Oil Canada Properties
	LASMO Nova Scotia Limited
	Significant Discovery Areas

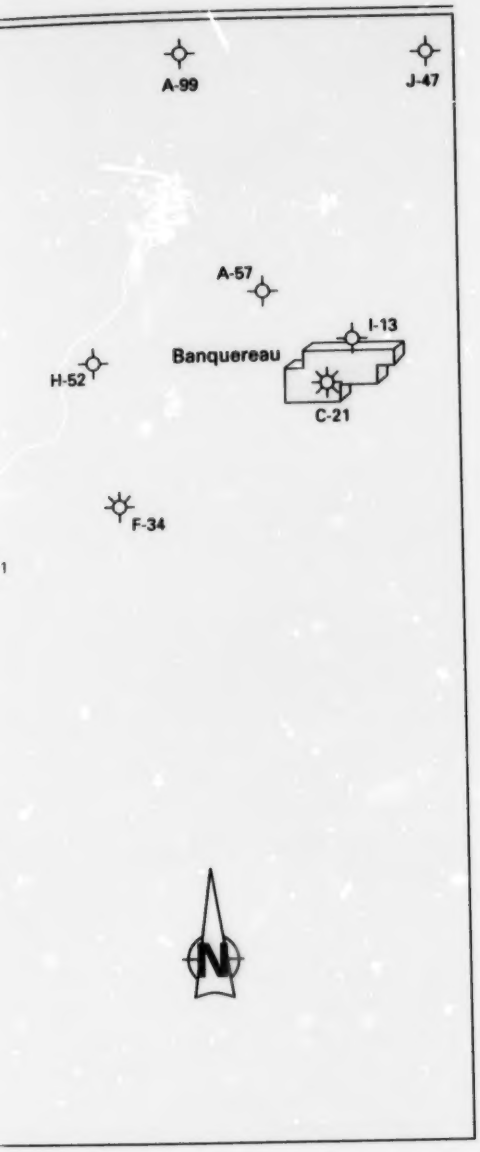
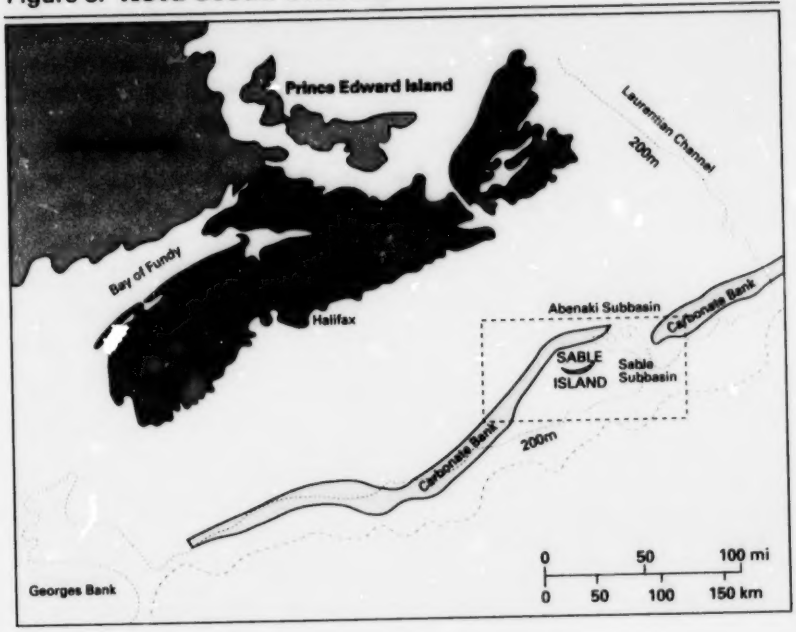


Figure 3: **Nova Scotia Offshore**



Offshore Natural Gas

The Company views positively the prospect for development during the 1990's of Sable Island area natural gas reserves. This would likely combine the established reserves in the Mobil-operated Venture Gas Project (VGP) with reserves discovered in adjoining areas operated by Shell. Mobil and Shell have indicated their intent to pursue the development of these resources as soon as permitted by improved prices. NSRL, which holds a 10% interest in the VGP and an average 2.5% interest in the Shell lands, considers that the combined gas reserves established to date are sufficient to support development during this decade.

Mobil, as Operator of a large exploration block awarded in 1989 bordering the VGP and Shell lands, has proposed seismic exploration in 1990 and 1991 to delineate the natural gas potential of the block. This may lead to subsequent exploration drilling.

Offshore Exploration

The Company holds interests in three exploration blocks southwest of Sable Island awarded by the Canada-Nova Scotia Oil and Gas Board in July 1989. Exploration Licences provide for a 3-year term commencing October 1, 1989. If the bid work expenditure obligations are met and a well is commenced on a block before October 1, 1992, its term will be extended a further three years.

Exploration Licence 352

LASMO Nova Scotia Limited, as Operator, and NSR(V)L each hold a 50% working interest in this block, which adjoins to the north the Cohasset and Panuke Significant Discovery Areas. The lands, which cover 26,392 hectares, are considered prospective of additional oil bearing structures that could augment Cohasset/Panuke development project reserves and extend project production life.

In 1989 LASMO and NSR(V)L commenced work on the block. A 2-D seismic program totalling 502 km has produced high quality data and identified exploration well prospects. The first location, Lawrence A-24, has been approved by the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB) and will be drilled in early 1991 by the Rowan Gorilla III jack up rig. A second exploration prospect may be drilled immediately after the Lawrence well.

Exploration Licence 353

This 18,500 hectare exploration block, located on the Abenaki carbonate bank edge northwest of Sable Island, is held and operated by NSRL and contains the 1976 Penobscot oil and gas discovery. NSR(V)L plans to conduct a 3-D seismic program over the Penobscot structure in summer 1991 to determine its potential for exploration drilling.

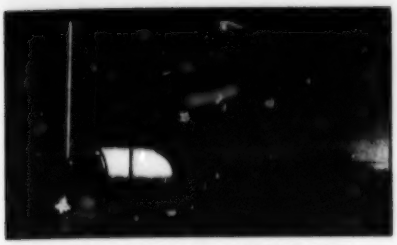
Exploration Licence 354

This 55,755 hectare block between the Venture Gas Project reserves established at Thebaud and the Cohasset/Panuke area was awarded to Mobil (Operator), Petro-Canada, NSRL, and Shell each as to a 25% working interest. The block is considered prospective of natural gas and includes a structure previously identified by Mobil as an attractive exploration target but not yet drilled.

A small scale 2-D seismic program in 1990 will be followed by a much larger program in 1991. This will lead to a decision regarding a possible exploration well.

1990 Award (Exploration License 2100)

In August 1990 LASMO and NSRL, each as to a 50% interest, were awarded a 24,948 hectare land block adjoining to the south the Panuke and Cohasset Significant Discovery Areas, pursuant to a call for bids by the CNSOPB. A major 2-D seismic program to define exploration prospects is planned for 1991.

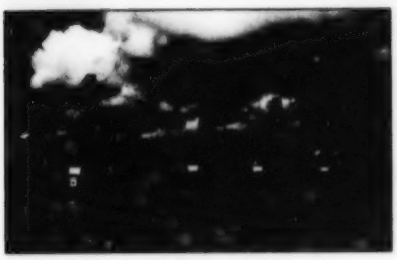


Water separation facility at Halkirk East/ Alliance North producing property in central Alberta

Producing Oil and Gas Properties

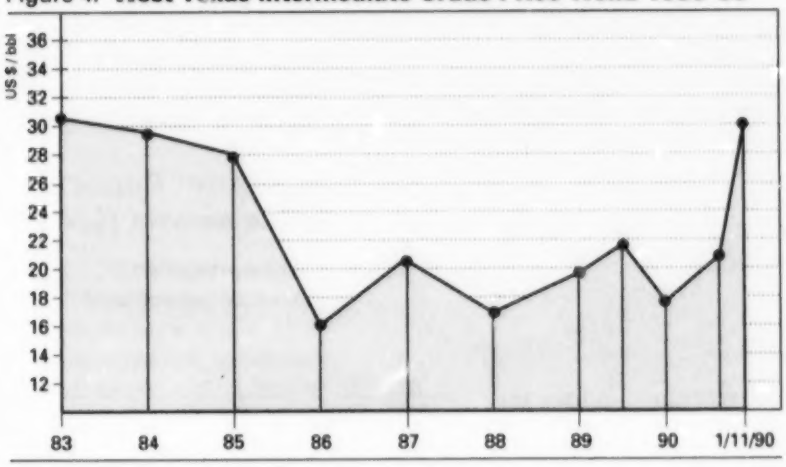
Accumulated net earnings to the Company from its producing oil and gas interests in western Canada from 1986 to March 31, 1990 totalled $5.5 million. In the 12 months to March 31, 1990 production from the properties was substantially higher than forecast, averaging 1,116 barrels of oil equivalent per day net to the Company's interest. This strong performance has achieved net earnings for the period of $2.17 million, nearly $1 million higher than the preceding year. Asset cash flow is used to meet corporate administrative costs, with the balance applied to reduce the cost of NSRL's Nova Scotia offshore exploration.

The Company is currently implementing a policy to consolidate its holdings in fewer but larger high quality "core" areas to obtain further management efficiencies and increased net revenues.



Four directional oil wells at Halkirk East

Figure 4: **West Texas Intermediate Crude Price Trend 1983–90**



Gold Exploration

Field work by Inco as Manager of the Scominex joint venture, in which NSRL holds a 25.8% interest, has continued to focus on the central Cape Breton Highlands. As a result of gold anomalies discovered in 1989 exploration has centred in two areas. Mineral sampling and trenching work has been conducted at one site to determine the presence of sufficient gold content to support a possible mining development. At a second location mapping, geochemistry, magnetic surveys and test drilling of a gold-bearing volcanic anomaly have been carried out. Results of work will be analyzed following the 1990 field season.

Management's Responsibility for Financial Reporting

The Consolidated Financial Statements and other financial information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

An independent auditor, Doane Raymond, is engaged to express a professional opinion on the financial statements prepared by Management. The examination is conducted in accordance with generally accepted accounting principles and auditing standards, and includes tests and procedures which allow the auditor to report on the fairness of the financial statements.

An Audit Committee consisting of non-Management directors is appointed by the Board of Directors to review the Consolidated Financial Statements in detail with Management and the auditor. The Audit Committee reports to the Board prior to such statements being approved.

Nova Scotia Resources Limited
Consolidated Financial Statements
March 31, 1990

Auditors' Report To the Shareholders of Nova Scotia Resources Limited

We have examined the consolidated balance sheet of Nova Scotia Resources Limited as at March 31, 1990, and the consolidated statements of exploration expenditures and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at March 31, 1990, and the continuity of its exploration expenditures and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Doane Raymond

June 13, 1990
Halifax, Nova Scotia

Chartered Accountants

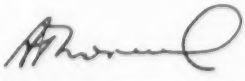
Nova Scotia Resources Limited
Consolidated Balance Sheet

(March 31)		**1990**	1989
Assets	Exploration expenditures *(Note 2 and 8)*	**$148,088,074**	$128,118,676
	Oil and gas producing properties *(Note 3)*	**15,168,357**	19,016,316
	Cash and short term deposits	**8,921,655**	2,663,483
	Receivables	**2,645,511**	10,060,732
	Mineral properties	**1,213,396**	1,083,023
	Other assets	**265,946**	407,337
		$176,302,939	$161,349,567
Liabilities	Commercial paper *(Note 4)*	**$134,430,012**	$151,892,752
	Bank indebtedness *(Note 4)*	**32,846,537**	8,514,503
	Deposit *(Note 5)*	**4,340,000**	
	Long term debt *(Note 6)*	**4,000,000**	
	Payables and accruals	**556,617**	776,477
	Deferred revenue	**129,770**	165,832
		$176,302,936	$161,349,564
Shareholders' Equity	Capital stock		
	Authorized		
	40,000 common shares without par value		
	Issued and outstanding		
	3 common shares	**3**	3
		$176,302,939	$161,349,567

Contingency *(Note 8)*
Subsequent event *(Note 9)*

On behalf of the Board

Director



Director

Nova Scotia Resources Limited
Consolidated Statement of Exploration Expenditures

(Year Ended March 31)	1990	1989
Balance, beginning of year	**$128,118,676**	$114,684,710
Exploration and pre-development expenditures	**11,008,431**	3,933,852
General and administrative costs	**866,006**	770,984
Financing costs	**10,441,610**	11,442,582
	22,316,047	16,147,418
Less: Exploration incentives	**176,373**	1,527,744
Earnings from oil and gas producing properties *(Note 3)*	**2,170,276**	1,185,708
	2,346,649	2,713,452
	19,969,398	13,433,966
Balance, end of year	**$148,088,074**	$128,118,676

Nova Scotia Resources Limited
Consolidated Statement of Changes in Financial Position

(Year Ended March 31)	1990	1989
Cash provided from (used for)		
Additions to		
Offshore Nova Scotia oil and gas properties	**$ (19,969,398)**	$ (13,433,966)
Oil and gas producing properties	**(460,704)**	(6,519,425)
Mineral property exploration costs	**(130,373)**	(215,979)
Depletion and depreciation	**4,323,598**	3,857,005
Receipt of deposit	**4,340,000**	
	(11,896,877)	(16,312,365)
Changes in		
Receivables	**7,415,221**	448,460
Payables and accruals	**(219,860)**	(2,110,945)
Deferred revenue	**(36,062)**	(10,247)
Other assets	**126,456**	(30,352)
	(4,611,122)	(18,015,449)
Financing		
Proceeds from commercial paper and bank indebtedness	**6,869,294**	13,678,635
Increase in long term debt	**4,000,000**	
	10,869,294	13,678,635
Net cash provided (used)	**6,258,172**	(4,336,814)
Cash and short term deposits, beginning of year	**2,663,483**	7,000,297
Cash and short term deposits, end of year	**$ 8,921,655**	$ 2,663,483

March 31, 1990

1. Accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

A significant part of the Company's activities is conducted jointly with others and accordingly, these financial statements reflect only the Company's proportionate interest in these activities.

Exploration expenditures

The principal activities of the Company are in the exploration and pre-production stage and accordingly the Company follows the full cost method of accounting as prescribed in the Guideline in Full Cost Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. All costs incurred for the acquisition, exploration and development of oil and gas reserves are capitalized in one cost centre. Costs capitalized include overhead related to exploration and development activities as well as interest and foreign currency gains and losses related to funds borrowed for these activities. The amount of exploration incentives earned is accounted for as a reduction of exploration expenditures.

The Company receives revenues and incurs expenses from producing oil and gas properties in Western Canada. However, because the principal activities of the Company are centered in the Nova Scotia offshore region and still in the exploration and pre-production stage, the earnings from producing properties are applied to decrease the accumulated offshore exploration expenditures.

Oil and gas producing properties

The producing oil and gas properties in Western Canada are valued at cost. Depletion for these properties is calculated based upon the unit-of-production method.

Mineral properties

The Company follows the full cost method of accounting whereby all costs of acquisition, exploration and development of mineral reserves are capitalized and accumulated within one cost centre. Costs capitalized include overhead related to exploration and development activities as well as interest expenses and foreign exchange gains and losses related to funds borrowed for these activities.

Foreign currency translation

Assets and liabilities denominated in U.S. dollars have been translated to Canadian dollars using the exchange rate on March 31, 1990. Transactions during the year are recorded using the exchange rate in effect at the date of the transaction.

2. Exploration expenditures

The Company's exploration expenditures relate to the offshore Nova Scotia region and include $56.5 million (1989 - $46.1 million) of accumulated net financing costs. The exploration expenditures have been reduced by $92.4 million of Federal Government exploration incentives earned. Exploration and pre-development expenditures for the year include $9.6 million related to the assembly of a complete land position in the Cohasset and Panuke oil fields offshore Nova Scotia. After assembly of this land position the Company farmed out a portion of its interest in exchange for future work commitments on the fields. The Company retains a 50% working interest in each of the fields.

3. Oil and gas producing properties

	1990	1989
Balance, beginning of year	**$ 19,016,316**	$ 16,319,086
Additions	**460,704**	6,519,425
Depletion	**(4,308,663)**	(3,822,195)
Balance, end of year	**$ 15,168,357**	$ 19,016,316

Gross revenues were $11,895,109 for the year. After all direct expenses and an allocation of financing costs, the Company's earnings from these properties were $2,170,276 (1989 - $1,185,708). The earnings have been applied to reduce the accumulated cost of exploration expenditures.

4. Commercial paper and bank indebtedness

In 1986 the Company established a Euro Commercial Paper Programme under which it issues short-term notes, guaranteed by the Province of Nova Scotia, to an aggregate principal amount not exceeding U.S. $150 million. The notes are denominated in U.S. dollars and the principal balance outstanding at March 31, 1990 was U.S. $117 million.

To support the Euro-Commercial Paper Programme, the Company has arranged a revolving credit facility with swingline advance option underwritten by 12 international banks which provides committed bank funding to U.S. $60 million. This credit facility has a 5 year term to October 9, 1991. The principal balance outstanding at March 31, 1990 was U.S. $28 million. Repayment of advances is guaranteed by the Province of Nova Scotia.

5. Deposit

A deposit has been received as a performance guarantee of the work commitments under the farm out arrangement referred to in Note 2.

6. Long term debt

The long term debt is non-interest bearing and is due as follows:

April 1, 1992	$ 3,500,000
December 1, 1993	$ 500,000
	$ 4,000,000

7. Income taxes

The Company's oil and gas operations are conducted through a subsidiary, Nova Scotia Resources (Ventures) Limited. This subsidiary is a taxable corporation and has approximately $173.2 million of deductions available to reduce future taxable income. Of this amount $30.3 million are non-capital losses which are due to expire in varying amounts over a period from March 31, 1991 to March 31, 1997 unless applied against taxable income of the Company. The tax benefit related to the deductions has not been recognized in these financial statements.

8. Contingency

The recovery of offshore exploration expenditures is contingent upon the achievement of commercial production from the Nova Scotia offshore. The Company holds interest in substantial established offshore gas and oil reserves the commercial production from which, in Management's opinion, would be sufficient to retire the Company's aggregate exploration and development expenditure indebtedness. Under current market conditions the date of commencement of offshore commercial gas production is uncertain.

As of June 13, 1990, a Development Plan for the Cohasset and Panuke oil fields offshore Nova Scotia was under consideration by the Canada-Nova Scotia Offshore Petroleum Board. Based on timely approvals, production from these fields is projected to commence in 1992.

9. Subsequent event

Subsequent to year end, the Euro Commercial Paper Programme and the related guarantee of the Province of Nova Scotia were increased to an amount not exceeding U.S. $185 million.

10. Comparative figures

Certain of the 1989 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1990.

Board of Directors

Dennis Ashworth
Halifax, Nova Scotia
Barrister and Solicitor

J. Ewart Blanchard
Halifax, Nova Scotia
Consultant

Ronald B. Coleman
Calgary, Alberta
Consultant [1]

H. Purdy Crawford
Montréal, Québec
Chairman, President
and Chief Executive Officer
Imasco Limited [2]

Thomas E.G. Lynch (Chairman)
Halifax, Nova Scotia
Businessman [1,2]

John C. MacPherson
Halifax, Nova Scotia
Barrister and Solicitor

Allan G. Manuel, C.A.
Dartmouth, Nova Scotia
Deputy Minister, Finance
Province of Nova Scotia [1,2]

H. Neil Nichols
Unionville, Ontario
Consultant [1]

Peter A. Outhit
Mahone Bay, Nova Scotia
President and
Chief Executive Officer
Nova Scotia Resources Limited

John L. Stoik
Toronto, Ontario
Consultant [2]

Principal Officers

Peter A. Outhit
President and Chief Executive Officer

Joseph A.F. Macdonald, Q.C.
McInnes, Cooper & Robertson
Secretary

Robert B. MacDiarmid, C.A.
Treasurer

John D. French
Director of Marketing and
Business Development

[1] Member, Audit Committee
[2] Member, Compensation Committee

Corporate Address

Nova Scotia Resources Limited
1718 Argyle Street
Suite 600
P.O.Box 2111
Station M
Halifax, Nova Scotia
Canada
B3J 3B7

telephone (902) 420-8800
telefax (902) 425-2195

Credits

Design: Next Step Graphics, Meredith Bell, MGDC
Cover Photography: James Steeves, Nova Scotia
Imagesetting: Owen Innes Imaging, Nova Scotia
Photoengraving: Maritime Photoengravers Limited (cover), Nova Scotia
Printing: Atlantic Nova Print Co. Inc., Nova Scotia